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Reverse Transformation? Global Shifts, the Core-Periphery Divide and the Future of the EU

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Abstract

The EU faces an existential crisis. The ‘liberal core’, which played an important role in transforming the illiberal regimes in much of the post-war period, suffers from a series of setbacks. This paper argues that the possibility of reverse transformation – that is, the power of the emergent illiberal bloc to influence the liberal core, has become a real possibility for the first time in the history of European integration. The paper contributes to the growing debate on the sources of the EU’s existential crisis and its future from a global political economy perspective. We suggest that a push-and-pull framework provides a coherent analytical toolkit to explain the properties and nature of the illiberal turn in the EU with its potential implications for the future of European integration.

Keywords: Multiple crises of the EU, reverse transformation, illiberalism, global political economy, de-Europeanization.

Introduction

Ten years after the Eurozone crisis, the European Union (EU) is facing existential challenges. The rise of illiberalism throughout the continent and a variety of disintegrative factors is presenting unprecedented tests to the core values of the EU. Few could imagine this kind of reversal of fortunes especially in the early 2000s when deepening and enlargement were taking place at full speed – projecting enthusiasm

and confidence for the future of the European integration project. Today, we seem to have reached a point where liberal democracy relapses throughout the continent. The retreat is particularly pronounced in some of the key members in Central and Eastern Europe (CEE) that have become the poster child of the EU's successful transformative capacity. For instance, Hungary, a member state since 2004, is now described by leading scholars such as Way and Levitsky (2019) as an example of "competitive authoritarianism" in the heartland of Europe. The democratic retreat in Poland is another striking case of illiberal backlash. The candidate states such as Serbia and Turkey also experience a significant wave of autocratization (Table 1). How can we explain this dramatic turn of events that result in an increasing loss of self-confidence regarding the future of the EU, notably in conjunction with its overall leverage in a changing international order?

Scholars of European integration have already started to theorize the challenges that the EU currently faces and offer explanations as to whether, why and how European disintegration unfolding (Webber 2014; Zielonka 2014; Jones 2018). One strand of scholarship, focusing on regional integration theories attempts to explain the historical, functional, and institutional forces behind regression of liberal European governance model (Jones, Kelemen and Meunier 2016; Schimmelfennig 2015; Vollaard 2014). Another strand, drawing from mid-range Europeanization accounts explores issue-specific domestic forces of non-compliance with EU conditionality as main factors that drive a new wave of "de-Europeanization" and illiberal turn (Alphan and Diez 2014; Ágh 2015; Öniş and Kutlay 2019).

The present paper contributes to the debate on the future of the EU as well as Europe from a global political economy perspective that takes into account the interplay of domestic and international dynamics as part of a broader hegemonic contestation over European order. We agree that domestic politics and institutions matter. However, the premise of this paper is that one cannot explain the far-reaching and paradoxical changes that we currently observe by focusing on internal dynamics alone. Our central proposition is that powerful political economy shifts in international order are critical to reveal the shifting sands in European integration project. To substantiate

this argument, we sketch push-and-pull framework as a coherent analytical model.¹ The push-and-pull framework makes two important contributions to the existing debates on European studies.

First, following a modified version of neo-Gramscian analysis, we frame the emergent illiberal wave as a counter-hegemonic bloc struggling over European political-economic order. The argument, in a nutshell, can be articulated as follows: From a broader neo-Gramscian perspective, the EU project can be conceptualized as the consolidation of a liberal hegemonic bloc embedded in socio-economic structures in the form of free market economy and liberal democracy. It is a well-established fact that the liberal bloc played an important role in transforming the illiberal countries in much of the post-war period. In effect, “the continual advancement of political liberalism” (Pappas 2016, 23) embedded in free market economy has become defining aspect in the construction of the European order (van Apeldoorn 2002). The collapse of the alternative socio-economic models with the dissolution of the Soviet Union institutionalized liberalism as an unrivalled ideological paradigm based on hegemonic reconfiguration of material power relations (see for instance, Fukuyama 1992).

The EU assumed an instrumental role in expanding liberal capitalism beyond Western Europe in the heyday of neoliberal globalization (Gill 2017). More recently, however, we experience a process of ‘reverse transformation’ in European integration, where the pendulum swings in the direction of illiberalism as a driving force across Europe.² We describe “illiberalism” as a broad-based ideology and worldview that embodies a spectrum of hybrid regimes ranging from electoral democracy to full authoritarianism. Accordingly, the right-wing populist parties and governments in the EU member states, in our classification, are illiberal in nature as they restrict political rights, civil liberties, and the rule of law. Hence, they intrinsically pose a challenge to liberal democracy and political pluralism upon which the EU has been built – especially given that they are more inclined to establish a transnational bloc in cooperation with

¹ A different version of the push-and-pull framework is first sketched in Öniş and Kutlay (2019).

² In this paper, ‘reverse transformation’ refers to the rise of illiberal regimes within the EU and their increasing capacity to influence the liberal core values upon which the EU has been built.

authoritarian regimes outside the EU.³ We therefore conceptualize the illiberal-authoritarian movements that wield growing influence as an emergent counter-hegemonic bloc undermining the very idea of liberal Europe. The neo-Gramscian reading of international political economy suggests, “the contradictions and conflicts that arise within any established structure create the opportunity for its transformation into a new structure” (Cox 1996, 146; also see Gramsci 1971, Cox 1983). The material contradictions of the liberal EU project in the form of multiple crises – which is called ‘push’ factors in our framework, opened new space for counter-hegemonic challengers not only as a form of passive resistance but also through material opportunities to re-structure the EU from within. As van Apeldoorn (2002, 20) suggests, “the stability and endurance of a hegemonic order can never be taken for granted.” Seen this way, the global financial crisis marked a watershed in terms of accelerating economic power shifts away from the West towards non-Western economies and attendant state-led development models. The rise of authoritarian great powers, either intentionally or unintentionally, empowers illiberal counter movements inside Europe through a series of incentives that provide new exit routes – which is called ‘pull’ factors in our framework. We therefore appear to be at a juncture where a new political-economic fault line emerges between the liberal hegemonic and illiberal-authoritarian counter-hegemonic blocs, the nature and properties of which can only be understood within the context of global political economy transformations. This does not necessarily mean the ultimate disintegration of the EU and it is soon to say what the long-run effects will be, but it heralds the emergence of a different kind of Europe, which is increasingly devoid of its core normative values in an era when democratic capitalism recedes.

Second, the epistemological approach in this paper has its origins in multi-paradigm research to explore complex interactions among a set of distinct but interlinked developments in global political economy and European studies. As Sil and Katzenstein (2010a, 11) suggest mono-causal single paradigm research “runs the risk of a high degree of error [...] to explain phenomena,” especially when it comes to

³ As such, they are analytically distinct from other authoritarian regimes such as Russia and China, which are becoming increasingly influential in Europe as part of the emergent illiberal-authoritarian bloc problematized in this paper. Based on Lührmann and Lindberg (2019) and V-Dem dataset, we categorize different countries according to their ‘autocratization’ scores. For illiberal EU member and candidate countries recently experienced significant autocratization, see table 1.

major transformations in times of multiple crises. This approach, which aims to explore mutual interactions among a set of causal mechanisms, proves particularly useful to address “complexity [...] of particular real-world situations” instead of “more narrowly parsed research puzzles designed to test theories” (Sil and Katzenstein 2010b, 412). The challenges that the EU faces with and the possibility of a reverse transformation in European integration project as part of an emergent illiberal counter-hegemonic bloc requires complex causal stories, which can not be confined within the boundaries of paradigm-bound research. Stated differently, the causes of rising illiberalism in Europe cannot be traced to a single cause. To account for this complexity in a coherent and comprehensive way and contribute to the extant research, we develop an integrated perspective by explicitly problematizing the interplay of European and international dynamics in a shifting world order.

The rest of the paper is organized as follows: We set the stage by examining the achievements of the EU with reference to the golden age of its transformative capacity (section 2). This is followed by an examination of the EU’s multiple crises involving economic, security and identity dimensions in a shifting international order (section 3). Section 4 develops a core element of the paper: We propose to go beyond the traditional confines of the North-South or East-West divide, which are often proposed as the basic fault-lines in contemporary Europe. We suggest an emergent political fault line between liberal and illiberal blocs, which provides a more compelling analytical toolkit to fathom the underlying causes of the EU’s reverse transformation. To this end, the proposed push-and-pull framework is utilized to address two key questions. First, how much power does the core states and EU institutions have in disciplining increasing illiberalism in member states such as Hungary and Poland (section 5). Second and more significantly, whether it is likely to observe a process of reverse transformation in European integration? Stated differently, can the newly emerging illiberal wave shape the future of European integration in reverse (section 6)? Finally, section 7 considers the possibility of a revitalized liberal democratic core – given our central position that the EU, with its normative values, matters in an increasingly post-Western international order.

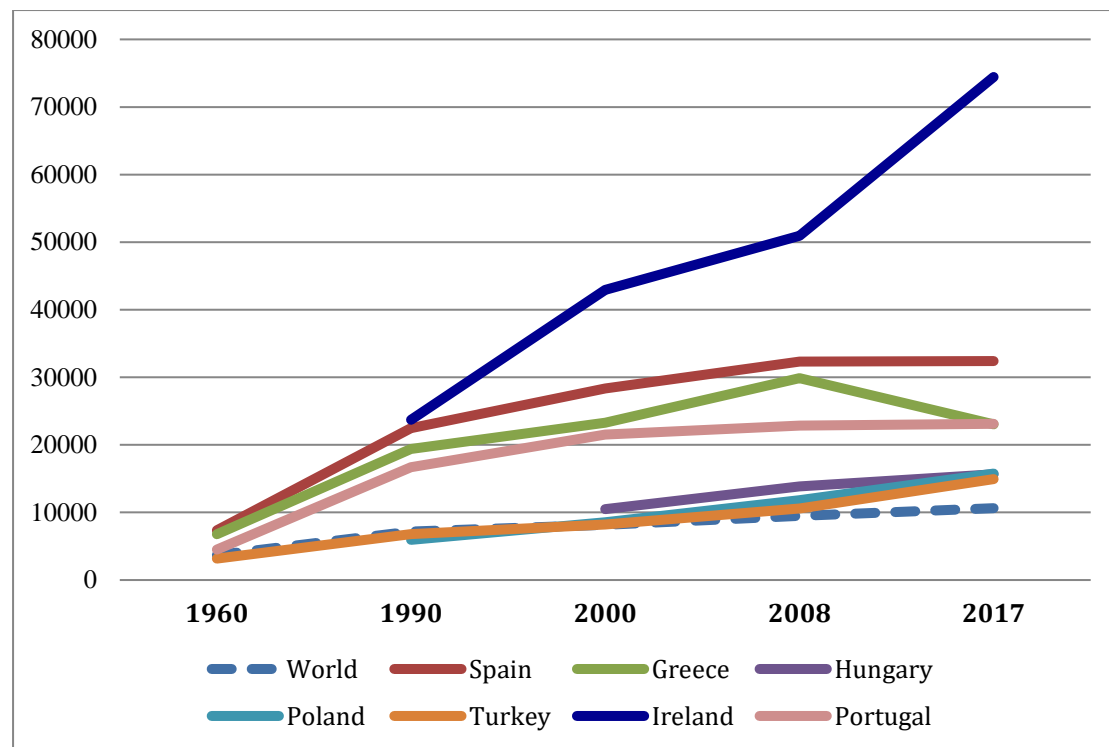
The Golden Age of the EU's Transformative Capacity

Any serious analysis of the current predicaments of the EU ought to start from the premise that the European project has achieved considerable success. The dual processes of deep integration and enlargement have helped to bring about peace and prosperity to a continent, which had historically been characterized by massive political upheavals, notably with the rise of extreme nationalism that led to two catastrophic world wars with tragic human sufferings (Jones and Menon 2019). The process of integration appeared to set in motion a virtuous cycle of democratization, economic expansion and free mobility with “14 million EU citizens resident in another Member State on a stable basis” (European Commission 2014a, 1). The economic size of the EU, being the biggest single market in the world, represents almost 23 percent of the global economic output.⁴

Whilst core states that embarked on the European integration project undoubtedly benefited from more Europe, perhaps the two peripheries of the EU – i.e., Southern and Eastern Europe, also emerged as the main winners through three major waves. Consider the case of Ireland, which was the first ‘southern’ member of the then European Economic Community (in the sense of having a per capita GDP much lower than the core northern states). Ireland has become a magnet for transnational investment flows. The Irish experience, often referred to as the “Celtic tiger”, has been synonymous with one of the well-known success stories in the contemporary era (Dorgan 2005, also see Figure 1). The second major wave came with the southern enlargement process of the EU, involving the accession of Greece, Spain and Portugal in 1980s. The Mediterranean trio was able to shed off their authoritarian legacies by managing to break away from dictatorships and consolidating liberal democratic regimes under the umbrella of the European integration (Gibson 2001; Royo and Manuel 2003). As figure 1 shows, all three, at varying degrees, benefited from expansion of trade, foreign investment and structural funds – as reflected in spectacular rise of GDP per capita in comparison to the world averages over the last four decades.

⁴ Data retrieved from the IMF database.

Figure 1. GDP per capita (constant 2010 US\$, selected European states vs. world average)



Source: World Bank, World Development Indicators

A similar pattern occurred, finally, in the case of the CEE. East Germany, relieved from vagaries of communism, was integrated with Federal Republic of Germany (West Germany) following a relatively long but mostly successful re-unification process. The states like Poland and Hungary have benefited from the EU integration, as these countries were able to leave behind their authoritarian legacies thanks to the domestic pro-reform coalitions that were empowered by the EU anchor. The literature suggests that substantive, if not unreserved and even, democratization took place in CEE over a relatively short span of time (Schimmelfennig and Sedelmeier 2005). Furthermore, these countries made significant gains in terms of trade, foreign investments, and access to structural and cohesion funds – particularly in the case of Poland that receives 22 percent of total cohesion funds,⁵ as well as capitalizing on free movement of labor within the single market. The European Commission research (van Ark et al 2013) documents that CEE countries extensively benefitted from foreign direct investments (FDI) flowing from the core Western states. Not as impressive as the CEE cases, Turkey, a candidate country since 1999, also experienced a significant interval of political-economic liberalization, clearly

⁵ Eurostat (2017, 23) data cover between 2014 and 2020.

facilitated by the anchoring role of the EU. In the Turkish case, the prospects of full-membership has rapidly waned for a variety of domestic and external factors, which, in turn had far-reaching consequences in terms of the country's recent illiberal turn (Table 1) – involving a massive shift away from democratic reform activism (Öniş 2016; Muftuler-Bac 2019; Demirtas 2015).

In retrospect, the climax of the European integration process seems to be reached in early 2000s. The European project as a liberal hegemonic bloc appeared to be in solid shape in the immediate aftermath of the collapse of the Soviet Union. The subsequent Maastricht Treaty (1993) and the Amsterdam Treaty (1998) constituted the hallmarks of an increasingly united European bloc, where deepening and widening proceeded at full speed. The 1990s were crucial in two important respects that cemented the EU's transformative capacity in its sphere of interest: First, decisive steps were taken to complete the most aspiring integration step in Europe, namely transition to a single currency. Second, the most ambitious enlargement process to date was accomplished with a record number of 12 new states admitted as full-members in 2004 and 2007 as part of the 'big bang enlargement.' As the new millennium unfolded most of the European elites and pundits were confident that the EU could uphold the liberal international order and "run the 21st century" (Leonard 2005).

The EU's Multiple Crises: Economy-Security-Identity Challenges

In early 2000s few could have imagined the kind of downturn that the EU would experience within the course of the next decades. The liberal EU project experienced a series of crises, which have raised serious questions about its founding principles – pluralist democracy and free market economy – as well as its transformative capacity. The recent developments in the EU brought about an unexpected and qualitatively different process of autocratization in several member and candidate countries. As Lührmann and Lindberg (2019, 1097) point out "contemporary autocrats have mastered the art of subverting electoral standards without breaking their façade completely." Waldner and Lust (2018), Levitsky and Ziblatt (2019) and Coppedge (2017) similarly demonstrate that recent illiberal turn in global politics, including the EU, takes the form of gradual democratic erosion rather than sharp institutional

breakdowns. Elected executives weaken checks and balance mechanisms in a gradual and subtle way that impede the capacity of opposition forces to control ruling elites – a process Bermeo (2016) defines as “executive aggrandizement.” The V-Dem dataset, which measures recent democratic retreat in a more nuanced manner, shows that significant democratic reversal – i.e., “autocratization” – is evident in several member and candidate countries at the national and institutional level (Lührmann and Lindberg 2019, 1098-1101, Table 1).

Table 1. Autocratization data on EU member and candidate states

Country	Begin	End	EDI before	EDI end	Type of Autocratization
Poland	2013	2017	0.91	0.73	Democratic Erosion
Serbia	2006	2017	0.69	0.45	Democratic Erosion
Spain	2013	2017	0.88	0.77	Democratic Erosion
Turkey	2008	2017	0.67	0.34	Democratic Erosion
Croatia	2013	2017	0.85	0.67	Democratic Erosion
Hungary	2010	2017	0.82	0.63	Democratic Erosion

Notes: The Electoral Democracy Index (EDI) ranges from 0 (not democratic) to 1 (fully democratic). ‘Begin’ denotes the year autocratization starts; ‘end’ denotes final available data. ‘EDI before’ denotes the electoral democracy score before autocratization takes place. ‘EDI end’ denotes the score of the country in the final year data available. This table is compiled from the online appendix of Lührmann and Lindberg (2019).

Illiberal counter-movements and parties in other European states, such as Germany, Austria, France, and Italy, have also made significant electoral gains despite liberal norms and institutions still remain relatively robust (as we shall discuss below). According to Timbro (2019) report, 26.8 percent of voters support “an authoritarian populist party last time they voted in a national election” (Table 2). It is true that measuring anti-liberal tendencies prove challenging and different scholars question whether the rise of those parties pose an “intrinsic danger to democracy” (Mudde and Kaltwasser 2017, 79). Nevertheless, we maintain that “authoritarian turn in the past crisis decade” (Kreuder-Sonnen 2018) in European electoral landscape pose an intrinsic threat to *liberal* democracy and rule of law upon which the EU project has been built (Krastev and Holmes 2018; Öniş 2016).

Table 2. Major illiberal parties in Europe and their vote shares

Country	Party	Result (%)	Last election
Hungary	FIDESZ	49.3	2018
Poland	PiS	44	2019
Italy	M5S	32.7	2018
Switzerland	SVP	29.4	2015
Austria	FPÖ	27.4	2017
Slovenia	SDS	24.9	2018
Denmark	DF	21.1	2015
Hungary	JOBBIK	21.1	2018
Finland	PS	17.6	2015
Sweden	SD	18.5	2017
Italy	LN	17.4	2018
Norway	FrP	15.7	2017
Latvia	KPV LV	15.8	2018
France	FN	13.2	2017
Netherlands	PVV	13	2017
Germany	AfD	12.6	2017
Latvia	NA	11	2018
Czechia	SPD	10.6	2017

Source: Timbro, <https://populismindex.com/report/>

This brings about two major puzzles this paper aims to address: What explains the current tide of dramatic shifts in European integration project? How can we make sense of the complex developments that appear to trigger a process of reverse transformation in Europe – the swings of pendulum in the direction of an emergent illiberal bloc? To answer these questions, this section sketches push-and-pull framework that accounts for domestic and global political economy drivers of the reverse transformation set in motion in Europe (Graph 1).

The ‘push’ factors concern gradual accumulation of internal crises of the liberal integration project that undermined pluralist democracy and free market economy as the backbones of the EU governance model. As the former president of the European Commission, Juncker (2016) suggested, “the polycrisis” of the EU “have not only arrived at the same time. They also feed each other, creating a sense of doubt and uncertainty in the minds of our [European] people.” The EU’s multiple crises, which brought about significant socio-economic restructuring, can be analyzed in four distinct but interrelated set of developments: (a) the impact of 9/11 attacks (b) the

European constitutional stalemate (c) the Eurozone crisis and (d) the migration turmoil. These four crises have posed intertwined challenges along security-economy-identity nexus that cumulatively deepened the contradictions of the hegemonic governance practices in the EU and, therefore, led to ‘push’ side of the equilibrium for countries located in the broader periphery of Europe.

To start with, the terrorist attacks associated with September 11, 2001, in retrospect, had long-lasting ramifications, which were arguably hard to anticipate at the time. Although the initial attacks targeted the U.S. they had a momentous impact on the whole of the Western psyche by unsettling the emergent post-materialist consensus on a cosmopolitan vision of Europe. Moreover, the terrorist attacks associated with radical Islamic groups were not confined to the U.S. They carried over into the European soil with a series of shocking incidents in key capitals including Madrid (2004), London (2005), Paris (2015, 2017, and 2018), and Brussels (2016). The impact of these external shocks was ultimately twofold. First, they helped to generate a growing sense of ontological anxiety in a continent, which appeared to be an extraordinarily safe haven and a fortress of stability throughout the post-1945 period. Second, these events helped to produce a backlash against the vision of multicultural Europe, which has reached its peak with the dominance of center-left social democratic parties in key EU states during the late 1990s (Gerhard Schröder and SPD in Germany, Tony Blair and New Labour in Britain, Lionel Jospin and Socialists in France). From the early 2000s onwards we observe a gradual but profound right turn in European politics, which could partly be described as an underlying reaction to the crisis of multiculturalism in Europe (Laitin 2010).

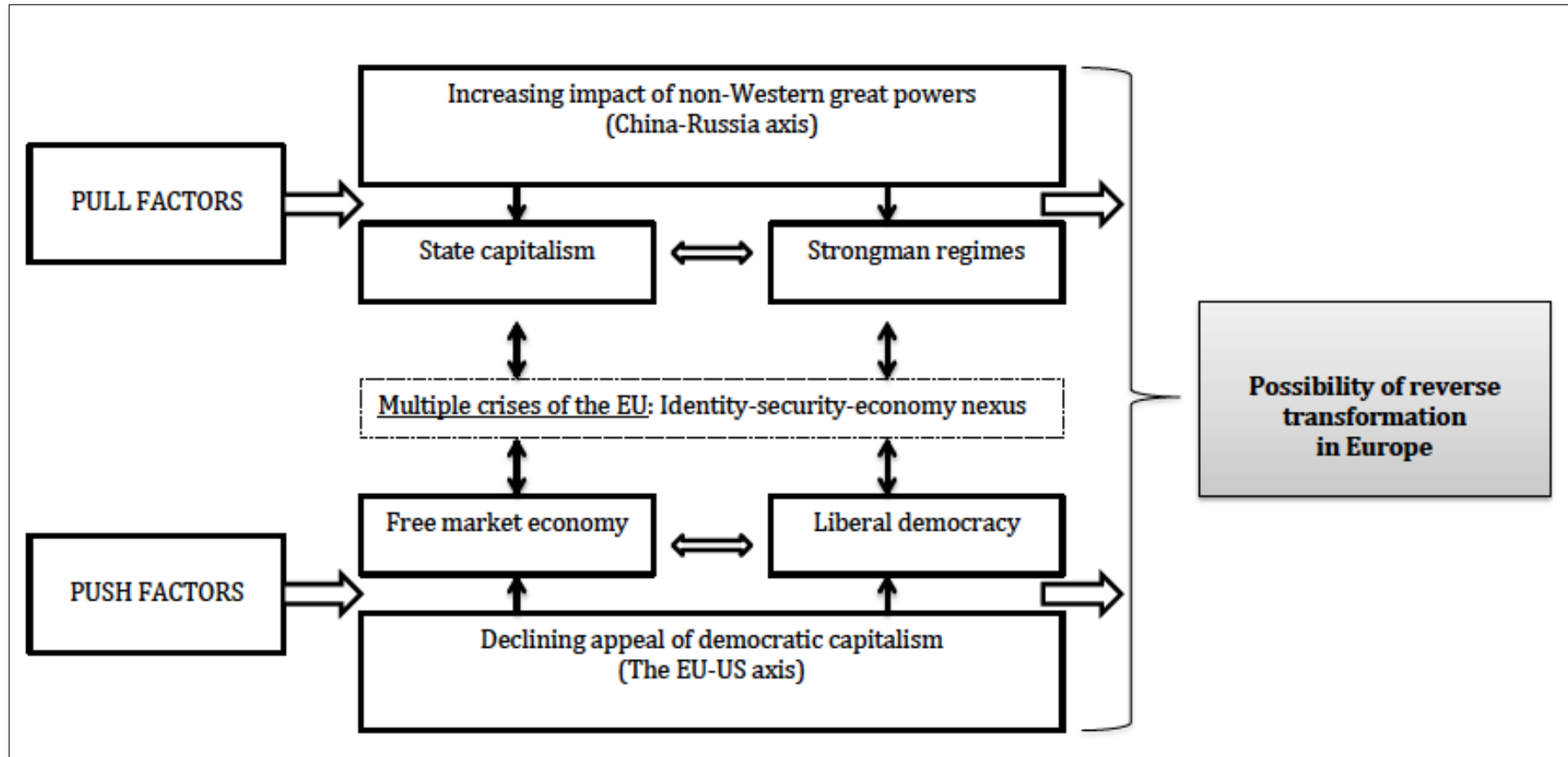
The second major challenge was a predominantly identity crisis associated with the constitutional stalemate. At the turn of the century, the European elites were confident that they could push ahead with the ultimate vision of a federal Europe. As the EU transitioned to a single currency the Constitution was considered as the inevitable next step, labeled as “the capstone of a European Federal State” by one of its authors (Verhofstadt 2004). Yet the initiative met with unanticipated resistance from the citizens at large, suggesting that the limits of a broad-based pan-European identity had already been tested by the early years of the 21st century (Hobolt and Brouard 2011; Gill 2017). The rejection of the constitutional proposal in the French and Dutch

referenda highlighted the fact that the idea of closer integration was not popular even in some core countries known with their deep commitment to the EU project. The reactions of citizens at large and growing skepticism to the delegation of more power to supranational EU institutions meant that the initial constitutional proposal needed to be shelved (Whitman, 2005). The constitutional crisis, as such, signaled one of the growing reactions against the liberal hegemonic bloc, namely the disjuncture between the views of the citizens and those of ruling elite that underscored the end of “permissive consensus” (Hooghe and Marks 2009) – a fault-line that has been effectively capitalized by nationalist and mono-culturalist parties since then.

The third major crisis that has thrown Europe into turmoil was in the economic realm. The global financial crisis of 2008 erupted with the collapse of the Lehman Brothers in the U.S., precipitously spread into Europe. As a matter of fact, the EU was proved much more exposed to the vagaries of financial crisis than the U.S. Although some countries managed to weather the storm (such as Germany, the Netherlands, and Austria) the Eurozone as a whole experienced deep calamity exacerbated with the inefficient management of the crisis. The prolonged stagnation, rising unemployment and growing inequality, as a result, alienated the peripheral states in the EU (Copelovitch, Frieden and Walter 2016). Given that the attractiveness of the liberal integration project was based on its ability to combine economic development with a commitment to democratic institutions and norms, the techno-managerial austerity policies implemented in the aftermath of the crisis fundamentally undermined the allure of the predominant socio-economic paradigm (Bruff 2014). On top of that, the migration crisis, which broke out in post-2014, set the final shock wave. The Arab upheavals, after a promising start in 2011, have reversed course and ended – at least for the moment – with grave failure and disappointment. The Syrian civil war, the bloodiest episode of the Arab upheavals, resulted in a massive exodus of migrants, possessing profound implications for the future of Europe. It posed fundamental economic, security and identity challenges by adding a new layer to the EU’s already complex multiple crises.⁶

⁶ Arguably, the Brexit decision, the single most important blow to the integration process in recent years, was a direct product of the anti-immigrant sentiment.

Graph 1. Push-and-pull dynamics of the EU's declining transformative capacity



Source: Authors' own model

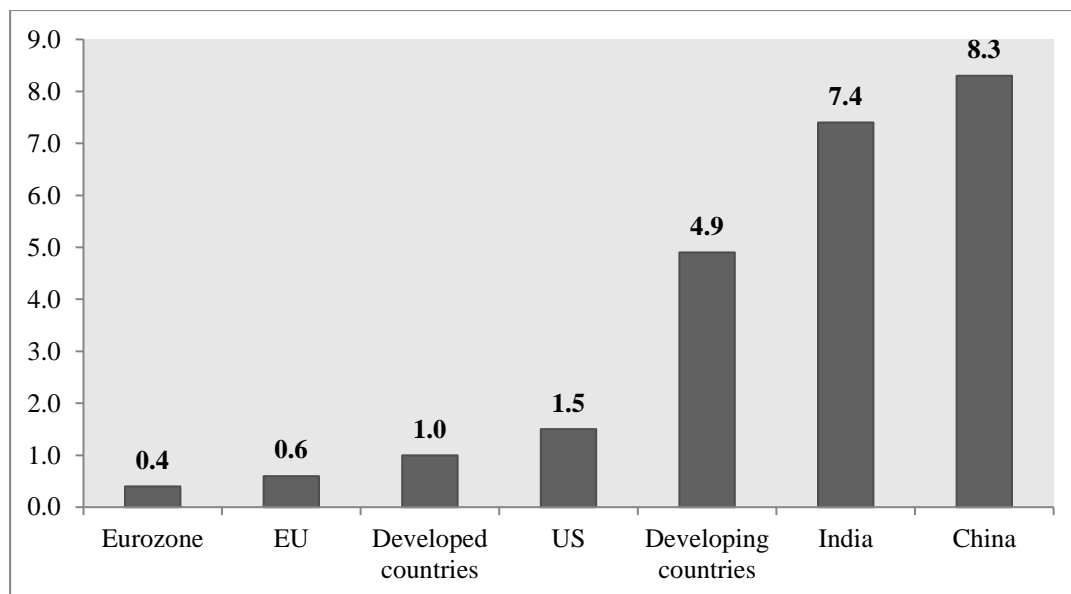
The internal crises of the liberal hegemonic bloc further challenged with the emergence of new material incentives due to power shifts in global political economy, which we call pull dynamics – i.e., growing impact of alternative models of capitalism. In effect, the rise of alternative models to democratic capitalism can only be understood once the Eurozone crisis is placed into its proper context. The Eurozone turmoil fundamentally impaired the viability of the common currency project, as the incompatibility of different varieties of capitalism in the monetary union raised severe concerns regarding the feasibility of the single currency experiment in a regional setting, where member countries vary widely in terms of development phases and domestic institutional arrangements (Hall 2012; Johnston and Regan 2018).

The EU's turmoil was part of a deeper and more structural transformation in the global political economy with major redistributive consequences. The global financial crisis marked a watershed in terms of the material power shifts away from the West towards non-Western economies (Acharya 2018; Layne 2018; Ikenberry 2018). This was a structural transformation already underway from the 1990s onwards. There is no doubt, however, that the global financial crisis and the Eurozone turmoil accelerated this process in a dramatic fashion. Among the non-Western powers, the most striking challenge came from Russia-China axis as more astute powers with their authoritarian brands of state capitalism and demonstrative effects on other countries. Hall and Ambrosio (2017, 144, 150) aptly point that it is difficult to systematically prove authoritarian promotion due to the “lack of transparency.” The recent literature, however, suggest that it exists, despite mechanisms, procedures, and impact remains a matter of controversy (Ambrosio 2010; Lankina, Libman and Obydenkova 2016; Bader, Gravingholt and Kastner 2010). Krastev and Holmes (2018, 118) argue that recent illiberal backlash in some EU member states can be explained with reference to the inversion of the “imitation imperative” – that is, “importing liberal-democratic institutions, applying Western political and economic recipes, and publicly endorsing Western values” in “a moral hierarchy within a single liberal, Western system.” We determine three potential pathways, all reducing the cost of foregoing imitation imperative, through which Russia-China axis undergird the emergent illiberal bloc in Europe.

First, state capitalism, as an alternative developmental path in non-Western great powers, has re-emerged as a challenger to democratic capitalist EU governance model. In state capitalist economies, state is considered more than a regulator that kick-starts the economy in the wake of recessions (Bremmer 2010). As a market maker, state organizes domestic political economy as part of “long-term government policy and economic success” (Kurlantzick 2016, 11). The strategic investments in key industries that underpin the research and development base of national economies, the establishment of public-private partnerships that invest in mega infrastructure projects, and political control of independent institutions such as central banks are considered not only important properties of developmental policies but also integral aspect of national security (Rediker 2015, Bremmer 2010; Kurlantzick 2016). Furthermore, state capitalist models mainly rely on illiberal political governance practices. In an explicit challenge to conventional wisdom that establishes positive correlation between liberal democracy and economic development, in those regimes, the main emphasis in politics is put on majoritarianism and ‘order and stability’, rather than individual rights and freedoms (Kutlay 2019).

The state capitalist models, the logic goes, with exclusive emphasis on rapid development and national sovereignty, consider executive aggrandizement and strongman regimes as the safest route to swift decision-making to ensure economic success (Monck and Foa 2018). In a world where democratic efficacy recedes, authoritarian models of capitalism associated with the Russia-China axis, pose a fundamental challenge to the liberal hegemonic bloc (Öniş and Kutlay 2019). China, in particular, with 8.3 percent annual growth in the post-crisis period has become a more influential actor, whereas the EU managed to grow 0.6 percent (Figure 3). On a broader scale, the countries rated “not free” (Freedom House’s lowest category) made up 12 per cent of global income in 1990. This ratio skyrocketed to 33 percent today, “matching the level they achieved in the early 1930s, during the rise of fascism in Europe, and surpassing the heights they reached in the Cold War when Soviet power was at its apex” (Mounk and Foa 2018, 30). Thus, non-Western challengers, whether intentionally or not, are more likely to exert growing influence through alternative state-market templates for those located in the EU’s sphere of interest.

Figure 3. Growth of real GDP (2009-2016, average % change)



Source: UN World Economic Situation, 2018.

Second, non-Western powers provide exit routes for states in the EU's periphery, which reduces the cost of defecting from "imitation imperative," through ample trade and investment opportunities (see section 6). The normative appeal of the liberal model, therefore, receives a major setback with the rise of unlikely rivals abroad. Third, authoritarian promotion may take place through active intervention in European political landscape by expanding political, communicational, and organizational linkages (Hall and Ambrosio 2017, 150). As discussed below, this is particularly the case when it comes to Russia's growing impact on and promotion of illiberal political movements in European states, which "refer to Putin's Russia as the model of an alternative political order opposing liberal democracy" (Shekhovtsov 2017, xxvii; also see Orenstein 2014; Cameron and Orenstein 2012).

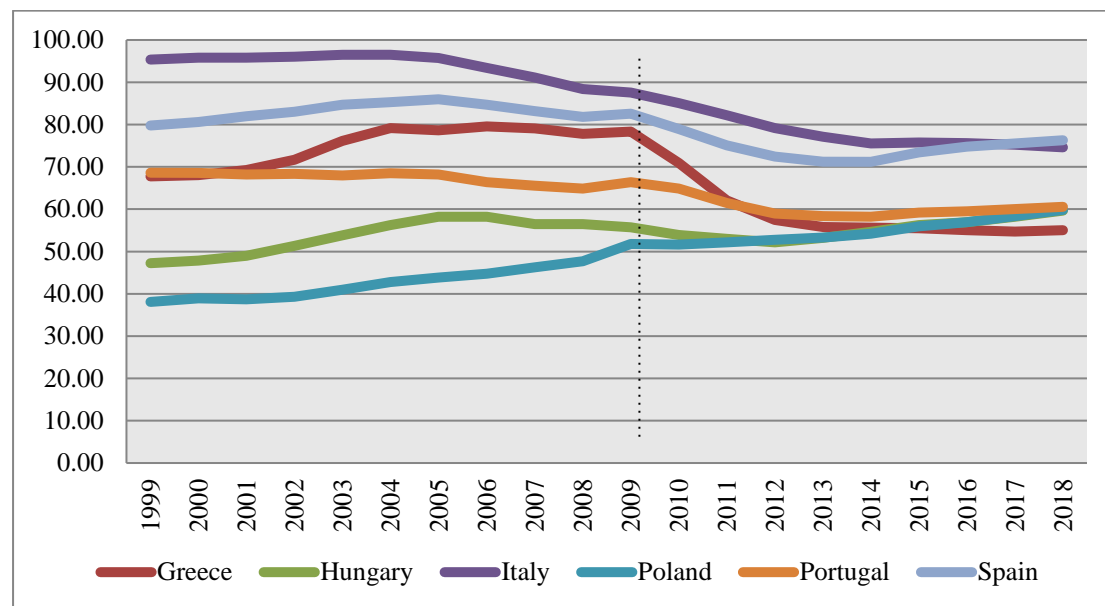
Beyond the North-South and East-West Divide: Liberal vs. Illiberal Blocs

The EU's overlapping multiple crises, unfolding within the context of push-and-pull dynamics, have exposed two fundamental fault-lines, which have been amplified over time: (a) The North-South divide and (b) the East-West divide. More pressing than these already existing cleavages, this paper argues, a third political fault-line appears to be in the making, which is more likely to inform an increasingly fragmented Europe in the years to come: The liberal vs. illiberal blocs.

The North-South divide is fundamentally economic, which historically remains a major cleavage despite Southern European countries have benefited from the European transformation process. The crisis tendencies accumulated due to the significant divergence of political economy structures of the Northern and Southern economies. Whereas the Northern members of the Eurozone are well positioned thanks to their competitive capacity and strong export-led growth models, the Southern members gradually lost their competitive edge and relied on public and private overspending (Hall 2012, 359). Given that currency devaluation ceased to be an option for these states to restore competitiveness with the adoption of euro, accumulating balance of payments deficits are financed through massive capital flows – in the form of cheap credits – from the northern economies, which abruptly stopped with the Eurozone turmoil (Simonazzi, Ginzburg and Nocella 2013).

The most dramatic impact has occurred in the Greek case, though the crisis also hit other Southern members. Italy in particular, a country often considered in the traditional European core, has emerged as one of the most problematic cases, with the scale of its debt problem and its inability to comply with the Eurozone disciplines, which along with migration crisis, has generated a sharp turn in the direction of political illiberalism at the domestic realm. One of the paradoxes of European integration is that in the past the periphery has been the major winner, but in post-crisis, the pattern has been reversed and the Southern periphery has emerged as a major loser at a time when the advanced Northern states managed to remain more resilient – as strikingly exemplified with the growing economic power of Germany as a regional hegemonic actor (Figure 4).

Figure 4. GDP per capita (purchasing power parity, Germany=100)



Source: IMF, world economic outlook database

Turning to the East-West divide the strong illiberal turn in CEE observed in recent years, with striking examples from Viktor Orbán's Hungary and Jaroslaw Kaczynski's Poland, suggest that there is a more fundamental problem at stake. For the future of liberal hegemonic bloc in Europe, the East-West divide appears to be by far the more fundamental fault-line. The problem in CEE appears to be a deeper political misfit, as opposed to a narrow-based economic division (Krastev and Holmes 2018). Hence, simply relying on economic recovery will not help to overcome the illiberal drift in those polities. The Polish case is quite telling in this respect. Poland has managed to maintain robust economic growth and has largely evaded the negative consequences of the Eurozone crisis (Figure 4), yet experienced a significant democratic backsliding in recent years, constituting an outright challenge to the EU's core normative principles (Fomina and Kucharczyk 2016; Börzel and Langbein 2019, 955-956).

Whilst the North-South and East-West divides are valuable typologies in terms of understanding the persistence of socio-economic cleavage structures (Börzel and Langbein 2019; Rhodes, Epstein and Börzel 2019; Magone, Laffan and Schweiger 2016), this paper suggests that a more refined understanding could be provided with reference to a newly emerging fault-line: the liberal core versus the illiberal bloc. The

EU has been designed to “uphold a set of core values, including democracy, pluralism and the rule of law” (Treaty on European Union, Article 7), which installed liberal democracy as default setting, toward which member and candidate states are expected to converge. We argue, however, that in a shifting international order, for the first time in the history of European integration, a group of illiberal insiders, in tacit cooperation with a group of outsiders, appear to be challenging the liberal hegemonic bloc upon which the EU has been built. This paper conceptualizes this emerging trend as a possible ‘reverse transformation’ in European integration, not because it necessarily poses an ontological threat to the liberal EU project but mainly because it is unique and likely to stay with us as a new cleavage structure in foreseeable future due to the complex dynamics sketched in the push-and-pull framework.

What would be the key ingredients of this broader notion of emergent counter-hegemonic bloc in the EU? We particularly identify three layers, which interact with and reinforce each other – even though, perhaps, sporadic and inchoate for the time being. First, a major constituency would be ‘peripheral insiders’ – i.e., illiberal governments in new members and candidate countries. Whilst these states follow the rules of electoral democracy, they, at the same time, significantly deviate from the norms of liberal democracy in terms of respect for minority rights, media freedoms and judicial autonomy (Kelemen 2017; Sedelmeier 2014). In Poland, Law and Justice (PiS) secured a strong win in the 2015 and 2019 elections, becoming the first outright majority government in post-communist era. The party has been accused of an illiberal turn, failing to respect the Polish Constitution, separation of powers and undermining democracy in its approach to the judiciary, media, public appointments and civil rights (Przybylski 2018; Kelemen 2017; Rech 2018). A more dramatic version of the Polish experience can be observed in the case of Hungary, where an equally strong conservative and ethno-nationalist party, FIDESZ, has dominated the political scene in recent years under the flamboyant leadership of Viktor Orbán (Kornai 2015). As a result, the European Commission (2017), in the context of Rule of Law Framework set up in 2014 (European Commission 2014b), activated Article 7 against Poland, which opens a path to sanction a member state and temporary suspension of the EU Council voting rights in case core EU values are violated. Also, the European Parliament (2018) voted in favour of a motion against Hungary in September 2018 to determine whether Hungary breaches the core EU values, despite

the fact that the short-term dynamics of “European party politics” undermined effective EU action against Orbán government (Kelemen 2017, 225-226; Rech 2018, 336).

Whilst Orbán/FIDESZ in Hungary and Kaczynski/PiS in Poland receive significant media attention in recent times, they are only one element of the emerging illiberal bloc in the European space. Far-right parties in core Western European states also have become increasingly influential as the second layer of emergent illiberal bloc. The Alternative für Deutschland (AfD) in Germany and Le Pen’s National Front in France have become major challengers in the electoral contest (Lees 2018; The Economist 2015). Although they have not yet managed to win elections on an outright basis, they increasingly have powerful effect on the overall political discourse. The center-right parties, especially, find themselves under pressure to adopt some of the policies of far-right contenders so that the pendulum swings to illiberalism. The weight and influence of far-right parties in established Western European democracies have magnified as a result of the EU’s multiple crises. These parties are able to capture the imagination of ordinary citizens by capitalizing on the politics of fear in an environment where the exodus of foreigners is seen to present a threat not only in economic but also in cultural terms – which help them foster a pan-European countermovement trying to transform the EU from within (see next section).

The third layer that nurtures emergent illiberal bloc appears as the key actors outside Europe, namely Russia, China, and arguably post-Trump-election America. The election of Donald Trump in November 2016 has fundamentally fragmented transatlantic alliance and diluted the hegemonic core in Europe. The American global role in the age of Trump, which Posen (2018) coins as the “rise of illiberal hegemony,” fragments the predominant liberal compromise. Russia and China have also emerged as major European actors in recent years. Russia is more assertive through its energy deals and interventionism in electoral politics of several European states, which has been documented by the European Commission (2019). China, however, with its more dynamic economy, pursues a subtler strategy and makes its presence felt through massive investments in the region (Kendall-Taylor and Shullman 2018). Several Eastern European countries are looking at Putin’s Russia and Jinping’s China as new economic and political partners – a point to be explored

below. Finally, the position of Turkey in this picture is quite interesting. Turkey is a country significantly transformed by the liberal European core, notably in the 1990s and the early 2000s. In recent years, however, the process seems to be reversed. Turkey under Erdoğan increasingly finds itself aligned with the Russia-China axis. In analytical terms, it is becoming a member of the broader illiberal bloc – a candidate country, with weak credentials for membership, acting in co-operation with other key actors constituting the counter-hegemonic coalition against liberal core.

The Limits of the Liberal Core's Transformative Capacity over Periphery

The recent dramatic chain of events in Poland and Hungary raise broader questions about the capacity of the EU to discipline member states for their failure to preserve the EU values. At first sight, it would appear that the liberal core in Europe would have much greater leverage over 'illiberal insiders' (countries, which are already inside the EU and benefit in a multitude of ways from the benefits of the membership process) compared to 'illiberal outsiders.' Indeed, as discussed above, there have been recent clashes between the EU and Poland over controversial judicial reforms. The European Commission has launched Rule of Law Framework under Article 7, threatening the Polish government with sanctions including possible suspension of the country's voting rights in the European Council (European Commission 2017). Recent clashes have also occurred in the context of the EU's intent to link budget to the rule of law, which, could, in principle, be a powerful incentive to comply with the EU norms (Strzelecki and Strauss 2018). A similar process could be identified in the case of Hungary, where the FIDESZ government has come under serious criticism from the EU institutions. The President of the European Council at the time, Donald Tusk, for instance, publicly criticized Orban by stating, "no one has the right, at least in our political family, to attack liberal democracy and its foundations" (Stone 2018).

Whilst the liberal core have acted to curb illiberal trends in the key CEE countries, its ability to translate the threat mechanisms into effective action is seriously constrained by *intervention paradox*. On the one hand, countries like Hungary and Poland act in coalition and take advantage of the voting procedures to veto effective action on part of the EU, which necessitates unanimity at the EU Council to trigger Article 7, even if the majority of member states feel that such disciplines are desirable (Rech 2018).

Hungary has emerged as a key ally in Poland's clash with the EU, forming a hardline axis against EU's interference in constitutional issues. Orbán, for instance, lambasted, "when they attack Poland from Brussels, they are attacking the whole of central Europe" (Hopkins 2019). On the other hand, the EU institutions face the delicate situation that such disciplines and sanctions could be seen as interference in the sovereign political space of member states. This, in turn, triggers a powerful nationalist backlash, helping to bolster the stronghold of nativist parties and leaders. Indeed Orbán uses this line of rhetoric very effectively to strengthen his position in domestic politics and carves the political space to push Hungary into a profoundly illiberal direction.

In a post-liberal international order where the efficacy of liberal governance model is in decline, one could argue that the ability of the EU to discipline Hungary and Poland prove increasingly more limited. The right-wing populist leaders effectively make use of the rhetoric of internal/external 'enemies' and tie outside interference to this kind of rhetoric to create "a feeling of siege" (Reich 2018, 339). Consequently, and rather strikingly, there was little that the EU could do to prevent a leading higher education institution in the region, the Central European University, associated with the liberal-oriented Soros Foundation, from being pushed out of Budapest. Therefore, based on a multitude of evidence, Hungary is increasingly identified as an exemplary case of the collapse of liberal democracy in the heartland of Europe (Kelemen 2017; Sedelmeier 2014; Way and Levitsky 2019).

The EU's *intervention paradox* has become even more delicate in the post-Brexit process. The possibility of the domino effect triggered by Brexit constrains the effectiveness of counter policy instruments for the core actors, resulting in further fragmentation. Thus, the EU sits on the sharp edge of the knife as imminent fear of over-reaction prevails: pushing too hard with the EU disciplines would not only strengthen the hand of ultra-nationalist leaders, but they could go even further and precipitate exit strategies on part of these countries. Being too lenient, however, would mean that powerful leaders riding the nationalist-populist wave and their governments enjoying strong electoral support find almost unlimited political space to translate their authoritarian inclinations into practice without leaving the EU (Reich 2018, 339). Hence, the hegemonic bloc trying to confront the illiberal challenge has

been encountered with a fundamental paradox, where over-reaction and under-reaction could equally prove to be ineffective, and even, self-destructive in dealing with the sources of the problem.

The Possibility of Reverse Transformation

The emergent illiberal bloc is, in fact, much broader than the narrow alliance of the key CEE countries. The broader periphery may have the power and influence over the liberal core, to institute a process of reverse transformation, which would involve not necessarily disintegration of the EU, but a pronounced weakening of its normative credentials. The first critical point to emphasize is that leaders like Kaczyński and Orbán are not necessarily interested in copying the Brexit strategy. Indeed, Orbán is clear on this issue. What he wants to achieve is to be an integral part of a process whereby the EU is transformed from within and evolved into a different kind of entity (Dewan, McLaughlin and Mortensen 2018, also see above). The EU that Orbán envisages is mono-cultural and anti-immigrant with closed borders constituted by “patriots instead of cosmopolitans [...] Christian culture instead of a multicultural mishmash” (Hungary Today 2019). It is a vision of Europe where the majorities have the upper hand, with minimal respect for political rights and civil liberties. At the same time, it is a vision, where economic and security interests dominate over democratic rights and individual freedoms.

Orbán’s vision from within, appears to be broadly compatible with, and influenced by, the visions of key illiberal-authoritarian outsiders such as Russia, China and even Turkey. As sketched in push-and-pull framework, key external actors not only serve as a role model for the leaders of illiberal European states but they also share a similar vision of the EU, which would continue to be a strong partner in economic and security realms, but sheds off its concerns with issues of democratization and human rights, which would necessarily infringe on the sovereign space of individual nations. As such, authoritarian promotion of Russia and China have been increasingly influential in the European space to such an extent that these two major powers could now be considered, in part, as notable European actors.

Russian presence is perhaps more visible, given the geopolitical importance of Russia for an energy dependent Europe. The literature suggest that Russia has become an assertive actor in terms of containing democracy promotion and promoting illiberal governance model in its immediate neighborhood (Ambrosio 2009; Babayan 2015; Tolstrup 2013). Recently, Russia, in spite of the rhetoric of sovereignty, has actively intervened in the internal political and electoral affairs of several Western democracies (The Economist 2017; Kendall-Taylor 2019). For instance, the pro-Russian websites are reported to support the official campaign site of the Italy's far-right Matteo Salvini. Germany's AfD also gets "strong support from both official Russian government media and unofficial pro-Russia channels" (Apuzzo and Satarino 2019). The European Commission (2019, 3) describes the Russian interference as "a hybrid threat" to the EU and its core values:

A continued and sustained disinformation activity by Russian sources aiming to suppress turnout and influence voter preferences [in Europe]. These covered a broad range of topics, ranging from challenging the Union's democratic legitimacy to exploiting divisive public debates on issues such as of migration and sovereignty [which] pose a hybrid threat to the EU.

Chinese efforts have so far been subtler and "less flashy than those of Moscow" (Benner et al 2018, 5-6), but, with "seemingly bottomless wallet in hand," increasingly making its presence felt in wider Europe through its trade and investment activities. According to Bloomberg data, "China has bought or invested in assets amounting to at least \$318 billion over the past 10 years [in Europe] – 45 percent more China-related activity than the U.S" (Tartar, Rojanasakul and Diamond 2018). China also launched 16+1 forum for meetings with 16 CEE/Western Balkan states and offered US\$10 billion special credit line (Garlick 2019, 1390-1391). As stated in the previous section, Chinese economic incentives are likely to jeopardize (1) the allure of democratic capitalism by juxtaposing its state capitalist model as an alternative and (2) reduce the cost of inverting "imitation imperative" via material resources and exit routes for European states, especially in an austere post-crisis economic environment. The material incentives, for sure, are utilized in return for political support to Beijing. For instance, in March 2017, Hungary, one of the major beneficiaries of Chinese capital, "derailed the EU's consensus by refusing to sign a joint letter denouncing the reported torture of detained lawyers in China" (Benner et

al 2018, 16). Czech Republic is another striking example, which used to be quite critical of the human rights records of China. After leadership change in 2014, critical voices have been sidelined and the new president strove to cultivate close ties with China that resulted in a strategic partnership agreement with a prospect of large volume of Chinese investments (Benner et al 2018, 17). The Czech President even argued that his country's sour relations with China were due to the "submissive attitude of the previous government towards USA and the EU" (quoted in Benner et al 2018, 17).

The CEE and the Western Balkans form a contestation ground between the core EU states and institutions on the one hand, and the Russia-China axis on the other (Kendall-Taylor 2019). For countries like Hungary and Poland, which are on a distinct illiberal path, Russia-China axis not only offers alternative models of capitalism, but also economic resources and opportunities, which render them economically more viable and, hence, in a stronger bargaining position with the EU's liberal core. It is striking that Orbán looks at Russia and China as his model cases of successful development (Mahony 2014). In one of his speeches, Orbán (2014) declared "I don't think that our EU membership precludes us from building an illiberal new state based on national foundations." He even pointed out Russia, China, and Turkey as role models, "none of which is liberal and some of which aren't even democracies" (Orbán 2014). The Hungarian prime minister, in line with the spirit of the counter hegemonic inclinations in those states, has implemented a set of heterodox nationalist economic policies most clearly exemplified in the case of interference with Central Bank independence (Johnson and Barnes 2015: 14-15).

Whilst perhaps not as important on the scale of the global powers such as Russia and China, Turkey's positioning in the process of reverse transformation, as an increasingly outsider actor in Europe, is also quite interesting. Erdoğan's approach is a striking example of how outside actors try to establish a new type of relationship with the EU. Turkey's relations with the EU is increasingly based on narrow, interest-based transactional co-operation on a number of key issues such as expansion of trade and investment links, energy, and the management of migration flows (Öniş and Kutlay 2019). Turkish political elite has no intention of pulling out of the Customs Union established in the mid-1990s, even though there are frequent talks about

improving the terms of the agreement itself. Turkey, in recent years, has also been trying to forge alliances with like-minded actors in Europe as well as positioning itself in the Russia-China axis.

The second critical point is that the rising illiberal wave does not only influence the normative orientation in states located in the periphery of Europe, but also leads to the emergence of new peripheries within core EU states, which in turn strengthens the broader notion of illiberal bloc as sketched in this paper. For instance, in France, Marine Le Pen's National Front has been a strong contender in national elections. Recent political shifts in Italy, and the growing popularity of the Deputy Prime Minister and Interior Minister, Matteo Salvini as the representative of the Northern League in the unlikely coalition with the left leaning Five Star Movement, are quite striking in this respect: A key politician in one of the core European states is adopting the language of illiberal politics, and establishing pan-European alliance with other like minded political elites. Salvini already established partnership with Hungary's Orbán and Poland's Kaczyński to "take over the EU" and "transform European politics" from within (Walker 2019).

The illiberal movements, whilst perhaps not the dominant political force, forge new alliances – even if loosely coupled, including key countries like Germany, France, the Netherlands, and Sweden (Baume 2019). On that note, as discussed above, the election of Trump in 2016 not only fragmented the transatlantic alliance but also constituted a big blow to the fortunes of the liberal core in Europe. Indeed, many Eastern European leaders look towards Trump in the same way that they look at Putin. The role Trump played in the Polish case, for example, is quite striking. There seems to be a fundamental difference between Poland and Hungary that the former is strongly Russia skeptic whereas the latter is not. However, the distance from Russia is compensated by the growing importance of the Chinese investments in economic terms. Also, the U.S. under the leadership of Trump continues its role an important European actor, but in an essentially negative sense by undermining the core liberal values of the EU. Ironically, the U.S., which historically has been one of the key architects of the hegemonic bloc throughout the post-War period, as now placed in the opposing camp of the emergent illiberal bloc challenging the liberal core in the broader European political space.

The illiberal moment in global political economy strengthens the positions of the counter movements in our scenario, which reinforce each other's existence and support. The illiberal wave is a global phenomenon and given the strength of the interactions, linkages and the depth of coalition building efforts of authoritarian leaders, their combined presence is likely to constitute a fundamental challenge to the core liberal values of the EU. The global nature of this coalition also suggests that its influence is unlikely to recede anytime soon that brings about reverse transformation as a real possibility for the first time in the history of European integration.

Conclusions

The transformative power of the liberal core over the illiberal regimes has often been identified as one of the principal achievements of the post-War settlement in Europe. This trend, however, has arguably reached its climax with the institutionalization of the single currency experiment and the Eastern enlargement process. A series of interlocking crises have fundamentally shaken the economic and normative foundations of the hegemonic European project. This paper examined the socio-economic dynamics of a possible reverse transformation in Europe by identifying three layers that interact with and reinforce each other. Central to our argument is to place disintegrative factors into global push-and-pull framework rather than studying the EU as a self-contained system. The strong illiberal elements in European states increasingly challenge the dominance of established parties, both on the center-right and center-left of the political spectrum. The family of heavily nationalist and illiberal leaders from Putin to Trump, from Orban to Erdoğan, from Le Pen to Salvini benefit from each other's existence and indeed try to form alliances and cross-cutting coalitions to advance their cause rather than remaining on the receiving end of the hegemonic contest over prevalent norms in a shifting international order.

Given the emergent pattern of reverse transformation, what are the prospects for a revitalized liberal core to overcome this powerful challenge in the coming years? The Merkel-Macron axis generated a renewed sense of confidence for a revitalization of the EU, based on a strong commitment to its normative foundations. The performance of the Green parties in the European parliamentary elections of 2019 constitutes an

additional cause for optimism that a progressive counter-wave is in motion. However, there were also growing fears about the strength and durability of this alliance, given that both Macron and Merkel faced major challenges in their respective political spheres. In Macron's case, attempts to push with neoliberal economic reforms to revitalize the French economy were met with very strong societal resistance. As a result, a major discrepancy emerged between Macron's international and domestic status. In the international sphere, he emerged as a key figure in the revitalization of the core European project. In the domestic sphere, his position appeared to be increasingly fragile and insecure, as large segments of the French society saw him as a direct representative of powerful business interests, a man who was more on the side of elites than ordinary people. In the German case, where the economic situation appeared to be far more favorable, the conflict emerged over migration. Merkel's liberal approach to refugees was severely contested in domestic political realm. Anti-immigrant sentiment not only precipitated the growing popularity and electoral support of the ultra-nationalist AfD, but also undermined her position within her own party, resulting in a change of leadership.

We should not underestimate the strength of the liberal core in the EU, though. Its long-term durability is likely to depend on a number of interrelated factors. First, an inclusive economic recovery seems to be a major precondition. Almost a decade following the onset of the global financial crisis, the EU is now on the path to fragile recovery. Yet, the process proves to be extremely uneven. The recovery of growth per se will be insufficient, if large segments of society within the individual states fail to capitalize on the benefits of economic growth. A second major pre-condition seems to be a greater commitment on part of the center-right parties and governments to the principles of liberal democracy and a greater willingness to enter into coalition with other progressive elements such as social democrats, liberals, greens to forge broad-based coalitions. The experience of the European People's Party (EPP), a key coalition of center-right parties in the European Parliament has arguably done a poor job in protecting the EU's liberal democratic values by not taking sufficiently vigorous action against illiberal leaders, as the case of Orban in Hungary aptly illustrates (Kelemen 2017, 224-227). There is also the danger that center-right parties may find themselves swinging the right to maintain electoral popularity in the face of a major populist challenge mounted from the far right.

This brings the role of civil society to fore as a potentially important element in the recovery of the transnational progressive-democratic coalition across Europe. There are already signs of this kind of societal, grassroots resistance. Massive anti-government protests in Hungary and Poland constitute striking examples of this tendency, which will be important in terms of upholding liberal democratic foundations of the European integration project. The attractiveness of the EU, in an increasingly post-western international order, will depend on its ability to maintain its strong normative credentials and serve as a model for the rest of the world. The balance of evidence, however, so far suggests that the pendulum may be swinging in the direction of reverse transformation. Even if the rising tide does not mean the disintegration of the EU, this paper argued that it heralds the emergence of a normatively fragmented Europe increasingly devoid of core values.

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